Global Thematics strategy

As a result of the current crisis, several themes of the strategy are already accelerating

- Global equity markets rebounded in April, posting their largest monthly gain since 2009
- The secular drivers behind our strategy remain intact
- Strategy performance was led by the 'Connected Consumer' theme

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What's happening?

Global equity markets rebounded strongly during April, posting their largest monthly gain since 2009. Growth has continued to outperform value during April, as investors reward those sectors which appear to benefit from either secular growth or near term opportunities. Businesses with high leverage, and particularly those with near term refinancing requirements have also suffered more than the broader market. Questions over the security of dividends have also impacted performance at a stock level.

Despite OPEC[1] cuts, the oil price remains weak, amid concerns of COVID-19 related oil demand destruction. During April we saw the May contract price fall below zero as traders paid to avoid taking physical delivery due to concerns that storage capacity is full.

In comparison with previous global crises, the policy response has been swift and co-ordinated. The scale of monetary and fiscal support is unprecedented and continues to develop to address liquidity issues where they arise.

Taiwan, Korea and China appear to have successfully contained COVID-19 and these economies have successfully ramped back up to near normal industrial activity levels. However, export markets are largely closed and travel and consumption remain weak. Whilst some European nations and a number of US states are making tentative steps towards reopening the economy, much of the developed world remains in lockdown. Recent macroeconomic datapoints have given a good indication of the scale of weakness to be expected in the second quarter 2020 as it is here that the full impact of the lockdowns will be in evidence. Despite this economic pain, it is clear and right that any relaxation will be gradual and dependant on the continued improvement in virus transmission data. Whilst the lack of a second wave in the parts of Asia which are relaxing restrictions offers some optimism, it is not certain that western populations will be prepared to accept some of the tracking measures which have supported this relaxation in China and Korea.

What is less certain is what 'normalisation' now means. Early indications from China suggest that consumers will be slow to return to restaurants and public transport; it seems likely that travel will be slow to recover and possible that some

[1] Organization of the Petroleum Exporting Countries

areas of the economy will operate below pre-crisis levels for the long term. As a result, the medium term outlook for earnings remains uncertain and this is reflected in ongoing volatility in equity markets.

Despite the uncertainty of medium term macroeconomic conditions, there are products and services for whom the addressable market appears to have expanded. Notable examples are areas of the Digital Economy and Automation. The secular drivers behind Aging and Lifestyle and Clean Tech also remain intact.

Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) in April. Outperformance was led by the 'Connected Consumer' theme. Holdings in Paypal, Amazon, Proofpoint, Globant and Alphabet all outperformed. Paypal and Amazon are clear beneficiaries of the COVID related shift to e-commerce. Proofpoint is a leading provider of Cybersecurity services, with broad end market exposure and enhanced cybersecurity services which are likely to be in increased demand from the enterprise sector going forward. Globant is a technology services company which specialises in digital transformation projects. Despite concerns that Alphabet would suffer weak advertising revenue due to the crisis, the stock has recently performed well as a result of both near term strength in YouTube and longer term opportunities in Cloud growth. Dexcom in 'Ageing and Lifestyle' continued to perform well. Dexcom offers continuous glucose monitoring devices which remain essential at this time. The weakest performance within the strategy came from 'Clean Tech' where holdings in Kingspan (high performance building insulation), Kerry Group (food ingredients) and Nextera (clean energy) all underperformed. Kingspan has suffered recently due to weak near term earnings resulting from limited construction activity. We remain confident in the competitive positioning of the business, its balance sheet strength and longer term secular growth drivers. Kerry Group underperformed following disappointment that it was not able to offset weakness in its food service channel with strength from food retail. Despite near term earnings weakness, we believe Kerry Group will continue to support its customers in adapting their products and portfolios effectively through this period of disruption and the recovery. Nextera underperformed during April, largely due to valuation concerns. Its recent earnings release underscored the resilience of its renewables business as earnings, guidance and new development plans all remain intact. We made no material changes to the strategy during April.

Outlook

The speed and scale of monetary and fiscal support offered in major economies has provided some relief in credit markets and offers support in global equity markets. Whilst the near term impact of shutdowns is becoming apparent, the path to recovery and the longer term implications of this crisis are not yet fully known.

It is clear that a healthy balance sheet and strong cashflow generation are now more critical than ever. We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are best placed to weather the current storm.

It is likely that a number of the themes of the Global Thematics will be the long term beneficiaries of a shift in behaviour which was already apparent but which is accelerating as a result of the current crisis. The portfolio is therefore well positioned to withstand the ongoing disruption and we view the current market volatility as an opportunity to add to some of those businesses at attractive valuations.

No assurance can be given that the Global Thematics Strategy will be successful. Investors can lose some or all of their capital invested. The Global Thematics strategy is subject to risks including Equity; Emerging markets; Currency; Global investments; Investments in small and/or micro capitalisation universe; ESG.

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